

## HSBC China Manufacturing PMI™

Manufacturing output fell for the first time since July 2010

### Summary

Manufacturing production in China fell during June, as total new order growth continued to moderate. On the inflation front, price pressures cooled noticeably, with both input and output prices rising at only modest rates.

The seasonally adjusted HSBC Purchasing Managers' Index™ (PMI™) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – fell to an eleven-month low of 50.1 in June, from 51.6 in May, signalling only a fractional improvement in manufacturing sector operating conditions. The index averaged its lowest quarterly reading since Q2 2009 in the second quarter.

June data signalled a decline in manufacturing production for the first time since July 2010, although the pace of reduction was only marginal. The index measuring trends in factory output has now fallen in seven of the past eight months since last October's peak. A drop in production levels in part led to manufacturers reducing their stocks of finished goods, with the rate of depletion quickening to the fastest since November 2010.

June's survey indicated a further moderation in overall new business growth. The latest increase in new orders was only marginal, and the slowest in the current eleven-month period of growth. Moreover, new export business decreased for the second month running, and at the most marked rate since March 2009. Those survey respondents that recorded a decline in new business from abroad attributed this to subdued global demand.

Employee numbers in the Chinese manufacturing sector fell in June, ending a three-month period of growth. That said, the rate of job shedding was only slight. Where a fall in staffing levels was signalled, this was commonly linked by panellists to lacklustre growth of new business. There were also reports of employee retirements and resignations.

Reflective of lower output requirements, the quantity of inputs acquired by manufacturing firms fell for the first time in twelve months. Consequently, stocks of purchases in the sector decreased for the sixth month in succession, and at a solid rate. Some companies also reported utilising stock holdings in an attempt to mitigate against delays in the supply chain. This was signalled by a further deterioration in average vendor performance during the latest survey period. Nonetheless, the rate of delivery time lengthening was the slowest in three months.

Higher raw material prices continued to push up average costs faced by manufacturers during June. However, the rate of input price inflation moderated sharply to the slowest in eleven months, with the relevant index falling by more than eight points from one month earlier. The rate at which manufacturing firms raised their factory gate charges eased accordingly, and was the slowest in the current eleven-month period of rising charges.

### Comment

Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

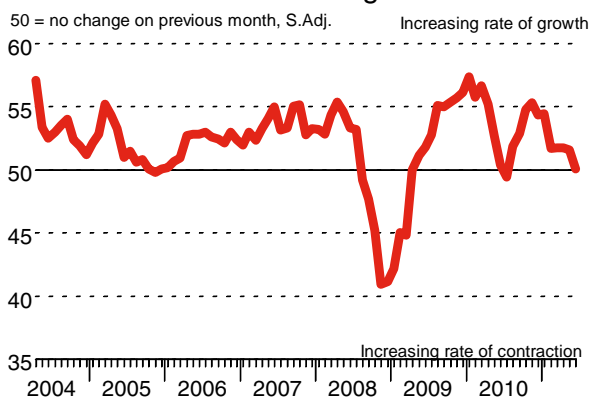
*"The final June PMI reading is the same as the flash number at 50.1, confirming that both activity and inflation keep cooling. This implies that policy tightening is working, pointing to a peak of inflation in the coming months. Despite of the slowdown, industrial output is still growing by 12-13% y-o-y, which is consistent with GDP growth of around 9%."*

### Key points

- Marginal decline in production levels signalled.
- New export business fell at fastest rate in twenty-seven months.
- Input cost inflation eased sharply to eleven-month low.

### Historical Overview

#### HSBC China Manufacturing PMI



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### Notes to Editors:

The HSBC China Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on regional and industry contribution to Chinese Industrial Production. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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